

Message Text

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73

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 PA-03 PRS-01 USIA-12 RSR-01 /116 W
----- 020995

R 092110 Z APR 73

FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 829

UNCLAS OTTAWA 0849

E. O. 11652: N/ A

TAGS: EFIN, CA

SUBJECT: BANK RATE INCREASED TO 5/25 PERCENT

1. BANK OF CANADA ANNOUNCED APRIL 6 THAT BANK RATE TO BE INCREASED BY ONE- HALF PERCENT TO 5/25 PERCENT EFFECTIVE APRIL 9. ADJUSTMENT MARKS FIRST CHANGE IN RATE SINCE OCTOBER 1971 AND FIRST TIME RATE HAS RISEN SINCE JULY 1969.

2. IN PRESS STATEMENT, BANK OF CANADA GOVERNOR BOUEY STRESSED THAT EXPANSIONARY MONETARY POLICY WOULD CONTINUE. HE ADDED THAT " REASONS FOR INCREASE IN BANK RATE RELATE TO RECENT SUBSTANTIAL INCREASES IN SHORT- TERM INTEREST RATES IN US AND OVERSEAS AND TO RECENT VERY RAPID INCREASES OF BANK CREDIT EXPANSION AND MONETARY GROWTH IN CANADA. THE SMALLER INCREASE IN SHORT- TERM INTEREST RATES IN CANADA THAN ABROAD HAS ADDED TO DEMAND FOR CREDIT HERE".

3. BOUEY NOTED THAT DURING FIRST QUARTER, MONEY SUPPLY EXPANDED AT 17 PERCENT (ANNUAL RATE) WHILE CHARTERED BANK LOANS ROSE BY AN ANNUAL RATE OF 26 PERCENT. HE SAID THAT ALTHOUGH SUBSTANTIAL RATES OF MONETARY AND BANK LOAN EXPANSION ARE NECESSARY " TO FINANCE THE VIGOROUS GROWTH IN OUTPUT AND EMPLOYMENT NOW UNDERWAY", EXCESSIVE RATES OF EXPANSION " ARE UNCLASSIFIED

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LIKELY TO MAKE IT MORE DIFFICULT TO CONTAIN INFLATION AND MAINTAIN A HIGH AND RISING LEVEL OF EMPLOYMENT AT A LATER DATE".

4. WITH CHARTERED BANK LOANS, PARTICULARLY THOSE TO CONSUMERS, RISING AT NEAR- RECORD RATES, BANK RATE CHANGE NOT UNEXPECTED. WHILE MOVE MAY WELL CAUSE INCREASE IN PRIME RATE (CURRENTLY 6 PERCENT), ONE CHARTERED BANK PRESIDENT SAID OVER WEEKEND THAT BANKS WOULD NOT INCREASE LENDING RATES.
SCHMIDT

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*** Current Classification *** UNCLASSIFIED

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